

EXHIBIT 1

REDACTED IN ITS ENTIRETY

2



Valuation Report Prepared for:

NorthWestern Corporation

**Determination of the Fair Value of Certain Underlying Assets
acquired from Montana Power, LLC**

**Valuation as of
December 31, 2002**

Prepared by:

BearingPoint, Inc.
303 E. Wacker Drive
Chicago, IL 60601

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January 30, 2003

Private and Confidential

Mr. Kipp Orme
Chief Financial Officer
NorthWestern Corporation
125 S. Dakota Avenue
Sioux Falls, SD 57104

Dear Mr. Orme:

In accordance with your request, we have performed a valuation analysis of certain underlying Montana utility assets (the "Subject Assets") owned by NorthWestern Energy ("NE"). NE is a division of NorthWestern Corporation ("Management"). The companies may be collectively referred to as "NorthWestern" in this document. We understand that the Subject Assets consist of the following operating businesses: The Montana Power Company, Canadian-Montana Pipeline Corporation, One-Call Locators, LLC, Montana Power Capital I, Discovery Energy Solutions, and Montana Power Natural Gas Funding Trust. We understand that the purpose of this engagement is to provide Management with a valuation report that will be among the information Management will take into account in Management's determination and certification of value that will be utilized in connection with a financing transaction, and that no other use is intended or inferred. We also understand that we are to utilize a valuation date of December 31, 2002 for our analysis.

Valuation Summary

Our valuation was completed under the premise of "fair value" which can be defined as follows:

"The amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale."

The assets were valued as part of a "going concern in continued use." In our analysis we considered and utilized the three basic approaches to value: the market, cost and income approaches. Based upon our analysis and methodologies utilized and presented in this report, we have determined the fair value of certain underlying assets of NE as of the Valuation Date and have summarized this value as follows:



\$1,500,000,000
One Billion Five Hundred Million Dollars

Category	Fair Value – Rounded
Montana Electric -ROW	36,184,000
Montana Electric – Real Property	5,213,000
Montana Electric –Operating Property	844,351,000
Colstrip Units #1-3, Transmission	65,000,000
Subtotal - Montana Electric	950,748,000
Yellowstone Park –Electric	10,624,000
Cushion Gas	33,394,000
Working Gas	6,954,000
Subtotal – Storage Gas	40,348,000
MPC Gas – Operating Property	416,979,000
Montana Gas ROW	7,920,000
Montana Gas Real Property	3,475,000
Subtotal – MPC Gas	428,374,000
Common Plant – Personal Property & Software	16,057,000
Common Plant – Real Property	14,535,000
Subtotal – Common Utility	30,592,000
Townsend Propane	578,000
Totals - Regulated Utilities	1,461,264,000
Future Use Land	9,000
Non-Utility Other Property	2,931,000
Non-Utility Propane	420,000
Colstrip No.4 – G&T	(1,837,000)
Canadian - Montana Pipe Line Corporation	326,000
One Call Locators, Ltd.	10,864,000
Totals – Non-Regulated/Other Property	12,713,000
Combined Subtotal	1,473,977,000
Grand Total – Rounded	\$1,500,000,000

Based upon our discussions, we have excluded current assets and spare parts inventory from our analysis, as well as the environmental liability associated with the Milltown Dam.

Please note that our analysis and conclusions are subject to the “Limiting Assumptions” as listed in Attachment 1.

Statement of Qualifications and Disinterest

This report has been prepared under the direction of Mr. Robert Musur, a Managing Director of BearingPoint, Inc. Mr. Musur is one of the designated Managing Directors



within the Firm authorized to conduct business valuation and intangible asset valuation studies. If you have any questions or comments regarding this report please call Mr. Musur at (312) 665-5134, or Mr. Roy D'Souza at (773) 867-6322.

BearingPoint has no present or contemplated future interest in NorthWestern Corporation, NorthWestern Energy, Inc., or any of their affiliated companies, or any other interest that might prevent us from performing an unbiased valuation. We thank you for the opportunity to assist you on this project.

Very truly yours,

BearingPoint, Inc.

A handwritten signature in cursive script that reads "Robert J. Musur".

Robert J. Musur
Managing Director
Valuation Services Practice

CC: David Monaghan, NorthWestern Energy
Kurt Whitesel, NorthWestern Corporation
Roy D'Souza, BearingPoint - Chicago (O'Hare)



ATTACHMENT 1

Limiting Assumptions

1. **Report Distribution** – This report has been prepared solely for the purpose stated and should not be used for any other purpose. Except as specifically stated in the report, neither our report nor its contents is to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document without our prior written approval. In addition, our analysis and report presentation are not intended for general circulation or publication, nor are they to be reproduced nor distributed to other third parties without our prior written consent.
2. **Scope of Analysis** – The valuation of any financial instrument or business is a matter of informed judgment. The accompanying valuation has been prepared on the basis of information and assumptions set forth in the attached report, associated appendices, or underlying work papers, and these Limiting Assumptions.
3. **Nature of Opinion** – Neither our opinion nor our report are to be construed as a fairness opinion as to the fairness of an actual or proposed transaction, a solvency opinion, or an investment recommendation, but, instead, are the expression of our determination of the fair market value of the subject interest(s) between a hypothetical willing buyer and a hypothetical willing seller in an assumed transaction on an assumed valuation date where both the buyer and the seller have reasonable knowledge of the relevant facts. For various reasons, the price at which the subject interest(s) might be sold in a specific transaction between specific parties on a specific date might be significantly different from the fair market value as expressed in our report.
4. **Going Concern Assumption, No Undisclosed Contingencies** – Our analysis: (i) assumes that as of the valuation date(s) the Subject Assets will continue to operate as configured as a going concern; (ii) is based on the past and present financial condition of the Subject Assets as of the valuation date(s); and (iii) assumes that the Subject Assets had no undisclosed real or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business, nor had any litigation pending or threatened that would have a material effect on our analyses.
5. **Lack of Verification of Information Provided by NorthWestern Energy, Inc. (“NorthWestern”)** – With the exception of audited financial statements, we have relied on information supplied by NorthWestern without audit or verification. We have assumed that all information furnished is complete, accurate, and reflects management’s good faith efforts to describe the status and prospects of Subject Assets at the Valuation Date from an operating and a financial point of view. As part



of this engagement we have relied upon publicly-available data from recognized sources of financial information that have not been verified in all cases.

6. **Reliance on Forecasted Data** – Any use of management’s projections or forecasts in our analysis does not constitute an examination or compilation of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants (“AICPA”). We do not express an opinion or any other form of assurance on the reasonableness of the underlying assumptions or whether any of the prospective financial statements, if used, are presented in conformity with AICPA presentation guidelines. Further, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected and these differences may be material.
7. **Subsequent Events** – The terms of our engagement are such that we have no obligation to update this report or to revise the valuation because of events and transactions occurring subsequent to the valuation date(s).
8. **Legal Matters** – BearingPoint, Inc. (“BearingPoint”) assumes no responsibility for legal matters including interpretations of either the law or contracts. We have made no investigation of legal title and have assumed that the owner(s) claim(s) to property are valid. We have given no consideration to liens or encumbrances except as specifically stated. We assumed that all required licenses, permits, etc. are in full force and effect, and we made no independent on-site tests to identify the presence of any potential environmental risks. We assume no responsibility for the acceptability of the valuation approaches used in our report as legal evidence in any particular court or jurisdiction. The suitability of our report and opinion for any legal forum is a matter for the client and the client’s legal advisor to determine.
9. **Testimony** – Neither BearingPoint nor any individual signing or associated with this report shall be required to give testimony or appear in court or other legal proceedings unless specific arrangements have been made in advance.
10. **USPAP** – This engagement was conducted pursuant to the Uniform Standards of Professional Appraisal Practice.
11. **Verification of Legal Description or Title** - As part of this engagement, we will not assume any responsibility for matters of a legal nature. No investigation of legal description or title to the property will be made and we will assume that your claim to the property is valid. No consideration will be given to liens or encumbrances which may be against the property except as specifically stated as part of the financial statements you provide to us as part of this engagement. Full compliance with all applicable federal, state, and local zoning, environmental, and similar laws and regulations is assumed, unless otherwise stated and responsible ownership and competent property management are assumed.



-
12. **Verification of Hazardous Conditions** - We will not investigate the extent of any hazardous substances that may exist, as we are not qualified to test for such substances or conditions. If the presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions may affect the value of the property, the value will be estimated predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility will be assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.
13. **Condition of Property** - We assume no liability whatsoever with respect to the condition of the subject property or for hidden or unapparent conditions, if any, of the subject property, subsoil or structures, and further assume no liability or responsibility whatsoever with respect to the correction of any defects which may now exist, or which may develop in the future. Equipment components considered, if any, were assumed to be adequate for the needs of the property's improvements, and in good working condition, unless otherwise reported;
14. **The Americans with Disabilities Act ("ADA")** - ADA became effective January 26, 1992. The valuation professional will not make a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the valuation professional has no direct evidence relating to this issue, he will not consider possible non-compliance with the requirements of the ADA in estimating the value of the property.



ATTACHMENT 2

Appraiser's Certification

I hereby certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct;
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions and conclusions;
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved;
- Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event;
- Mr. Roiston D'Souza contributed significantly to the person signing this report.

A handwritten signature in cursive script that reads "Robert J. Musur".

Robert J. Musur, ASA
Managing Director
BearingPoint, Inc.



ATTACHMENT 3

Qualifications of the Appraiser

ROBERT J. MUSUR, ASA

Managing Director - Valuation Services Practice

Key Qualifications:

Mr. Musur is a Managing Director in the Valuation Services Practice of BearingPoint, Inc. He has valuation experience in many industries, including communications, utilities, broadcasting, and publishing valuations. He has extensive experience in valuations for acquisitions, mergers, divestitures and litigation cases. Previously, Mr. Musur had been the practice leader for KPMG LLPs' appraisal and valuation group in New England, and is currently National Director for BearingPoint, Inc.'s (formerly KPMG Consulting, Inc.) U.S. Communications and Content Valuation Services Practice.

His utility experience includes the following:

- Involved in the completion of a purchase price allocation for the acquisition of various operating power plants, power plants under development, and natural gas storage operations;
- Valuation of an electric and natural gas utility in the State of Montana for purchase price allocation purposes;
- Valuation of an electric transmission and distribution utility located in the State of Texas for financing purposes;
- Valuation of a portfolio of electric generating facilities located in the State of Texas for financing purposes;
- Valuation of two electric generating facilities located in the Dallas, Texas area for purchase price allocation purposes;
- Valuation of hydro generating facilities and an electric transmission system located in Winnipeg, Manitoba;
- Completion of a valuation study for tax purposes for an entity involved in electricity trading, non-utility generator restructuring and orimulsion contracts; and a related entity that engages in the purchase and sale of physical oil contracts in the United States;
- Completion of a purchase price allocation for telecommunications property acquired in the states of California, Illinois and Nebraska;
- Completion of a weighted average cost of capital study for ad valorem tax appeal purposes for a competitive local exchange carrier.



ROBERT J. MUSUR, ASA
Managing Director - Valuation Services Practice

Education:

JD, Loyola University of Chicago
MBA, DePaul University
BS, Engineering, University of Illinois

Affiliations:

American Society of Appraisers, Senior Member

Professional Experience:

Managing Director, Valuation Services, BearingPoint, Inc. (formerly KPMG Consulting, Inc.), October 2002 to present

Managing Director, Valuation Services, KPMG Consulting, Inc., July 1998 to October 2002

Director, Corporate Transaction Services, KPMG Peat Marwick LLP-Midwest, April 1996 to June 1998

Managing Director, Appraisal and Valuation Group, KPMG Peat Marwick LLP-New England, November 1993 to April 1996



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Scope of Engagement

We have performed a valuation analysis of certain underlying Montana utility assets (the "Subject Assets") owned by NorthWestern Energy ("NE"). NE is a division of NorthWestern Corporation ("Management"). The companies may be collectively referred to as "NorthWestern" in this document. We understand that the Subject Assets consist of the following operating businesses: The Montana Power Company, Canadian-Montana Pipeline Corporation, One-Call Locators, LLC, Montana Power Capital I, Discovery Energy Solutions, and Montana Power Natural Gas Funding Trust. We understand that the purpose of this engagement is to provide Management with a valuation report that will be among the information Management will take into account in Management's determination and certification of value that will be utilized in connection with a financing transaction, and that no other use is intended or inferred. We also understand that we are to utilize a valuation date of December 31, 2002 for our analysis.

The Subject Assets consist of the assets of the following operating businesses: The Montana Power Company, Canadian-Montana Pipeline Corporation, One-Call Locators, LLC, Montana Power Capital I, Discovery Energy Solutions, and Montana Power Natural Gas Funding Trust. Specifically, the Subjects Assets primarily consist of electric and natural gas transmission and distribution operations and associated real property, common plant real and personal property (including software), and associated businesses such as propane distribution, pipeline operations, and utility line locating.

On December 19, 2002 BearingPoint, Inc. ("BearingPoint") submitted a valuation report for the Subject Assets for the purposes of purchase price allocation, utilizing a "Valuation Date" of February 1, 2002. To perform the current valuation, BearingPoint has relied extensively on the working documents completed for this prior appraisal, as we have been informed by Management that no significant change in business operation has occurred during the eleven-month period from the previous to the current Valuation Date. Any changes in fair value from this prior analysis have been documented in this report.

Based upon instruction from Management, we have excluded current assets and spare parts inventory from our analysis, as well as the environmental liability associated with the Milltown Dam. Our analysis is solely inclusive of the specific assets described in this report, and does not constitute a business enterprise valuation of NE.

Premise of Value

Our valuation was completed under the premise of "fair value" which can be defined as follows:

"The amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale."



The assets were valued as part of a "going concern in continued use." This valuation premise presupposes the continued utilization of the assets in connection with all other assets. This premise of fair value is not intended to represent the amount that might be realized from piecemeal disposition of the assets or from some other use of the assets.

As previously discussed, we considered the three traditional approaches to value by applying generally accepted valuation principles and procedures. Our support for these various approaches is provided in this report, and has allowed us to arrive at a reasonable conclusion of the fair value of the Subject Assets.

In arriving at our opinion, we have applied generally accepted valuation procedures based upon economic and market factors. The accompanying valuation has been prepared on the basis of discussions with Management, public information, and financial information provided by Management. We have also used certain data supplied by Management in our valuation and have considered Management's representation of certain facts as part of the valuation engagement. The objective of these procedures was to develop a thorough understanding of the Subject Assets. This report summarizes the analytical approach and findings. In addition, we have commented on the adequacy of access to necessary materials and personnel in the course of our investigation and noted any limitations on our opinion.



Summary of Fair Value

Based upon our analysis and methodologies utilized and presented in this report, we have determined the fair value of certain underlying assets of NE as of the Valuation Date and have summarized this value as follows:

\$1,500,000,000
One Billion Five Hundred Million Dollars

Category	Fair Value – Rounded
Montana Electric –ROW	36,184,000
Montana Electric – Real Property	5,213,000
Montana Electric –Operating Property	844,351,000
Colstrip Units #1-3, Transmission	65,000,000
<i>Subtotal – Montana Electric</i>	<i>950,748,000</i>
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<i>Subtotal – MPC Gas</i>	<i>428,374,000</i>
Common Plant – Personal Property & Software	16,057,000
Common Plant – Real Property	14,535,000
<i>Subtotal – Common Utility</i>	<i>30,592,000</i>
<i>Townsend Propane</i>	<i>578,000</i>
Totals – Regulated Utilities	1,461,264,000
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Non-Utility Other Property	2,931,000
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Colstrip No.4 – G&T	(1,837,000)
Canadian – Montana Pipe Line Corporation	326,000
One Call Locators, Ltd.	10,864,000
Totals – Non-Regulated/Other Property	12,713,000
Combined Subtotal	1,473,977,000
Grand Total – Rounded	\$1,500,000,000

Supporting Documentation

This valuation report is the result of various financial calculations and analysis. We have maintained orderly and comprehensive workpapers that provide support for the value presented herein, and if requested by you, we would be pleased to provide these to you. Most of our information was collected through interviews and documents provided by NorthWestern personnel.



Business Overview

We understand that NE consists primarily of regulated electric, natural gas and propane utility operations (the "Utility"), as well as certain non-utility generation and service operations. The electric and natural gas service territory covers roughly 107,600 square miles, or approximately 73% of Montana, making it one of the countries largest utilities in terms of service territory.

The regulated electric utility purchases, transmits and distributes electricity to over 288,000 customers in 191 communities and their surrounding rural areas throughout Montana, including Yellowstone National Park. The electric utility also delivers electricity to rural electric cooperatives that serve approximately 76,000 customers. The total control area peak demand exceeds 1,500 megawatts, and over 10 billion kilowatt hours are delivered per year.

The regulated natural gas utility purchases, transports, distributes and stores natural gas for over 151,000 customers in 109 communities throughout the state. The natural gas utility also serves several smaller distribution companies that provide service to approximately 28,000 customers. Peak capability is approximately 300 million cubic feet ("MMCFD") per day and approximately 50 billion cubic feet ("BCF") is moved annually on the system. Three natural gas storage fields provide up to 185 million cubic feet per day of peak day deliverability.

We further understand that these utility operations are managed through three operating units: Distribution Services, Electric Transmission, and Natural Gas Transmission and Storage.

Distribution Services

Distribution Services delivers electricity and natural gas to homeowners and commercial users through the Company-owned distribution infrastructure. These services can be broken down into four primary components:

1. **Operation and Maintenance of the Distribution System** – The Utility operates a combined electric and natural distribution systems, as each of the six service centers (identified below) are equipped to construct, operate and maintain both electric and natural gas services. The Utility also owns and operates a transformer and meter service center in Butte, Montana, supporting all division operations and providing third-party services.
2. **Customer Service** - Customer service functions include coordinating service calls, meter reading, customer billing and similar support functions. All operations of this nature are centralized out of a dedicated call center located in Butte.



3. Coordination of Electric Supply – The Utility has entered into power purchase agreements with PPL Montana to meet load requirements through June 30, 2002. The Utility then obtains its necessary load through the use of 15 Qualifying Facility contracts (“QF’s”), along with electricity produced from the Milltown Dam location.
4. Coordination of Natural Gas Supply – In 1997, Montana Power Company transferred its utility gas production assets to an unregulated affiliate, and entered into a buyback contract for roughly half its gas supply requirements. The buyback contract terminated on October 31, 2002. The remainder of the natural gas load is supplied under approximately seven annual contracts and four long-term contracts with various suppliers and marketers connected to the Utility’s transmission system.

Distribution Services includes six divisions, with service centers located in Billings, Bozeman, Butte, Great Falls, Helena and Missoula. The electric distribution system consists of approximately 14,000 miles of overhead distribution lines and 1,000 miles of underground distribution lines ranging from 2,400 to 25,000 volts. The Utility has 336 substations, 269 of which serve the distribution system. The distribution system delivers approximately eight million megawatt hours to in-state markets. The natural gas distribution system consists of approximately 3,300 miles of underground distribution pipelines ranging in diameter from 0.5 inches to 20 inches. The Utility delivers over 40 billion cubic feet of natural gas annually to in-state customers.

In addition to its electricity and gas distribution operations, the Utility operates one regulated on and two unregulated propane distribution systems with annual sales of approximately 1.1 million gallons per year.

Electric Transmission

The electric utility transmits bulk energy from in-state generation sources to distribution points and other non-affiliated transmission systems. The transmission system also transmits power to and from other interstate transmission systems. The system consists of approximately 7,000 miles of transmission lines, 270 circuit segments and 125,000 transmission poles with associated transformation (67 transmission substations) and terminal facilities. The system extends through the western two-thirds of Montana from Colstrip in the east to Thompson Falls in the west.

The system has interconnections with five major (non-affiliated) transmission systems located in the Western Systems Coordinating Council area, as well as one interconnection to system that connects with the Mid-Continent Area Power Pool region. With these interconnections, the electric transmission system is strategically located to allow for the purchase and delivery of power in diverse markets, including the Pacific Northwest, the desert Southwest and California, the Colorado area and the MAPP region.



The Colstrip Station is a 4-unit coal fired generating station located in Colstrip, Montana. NE owns the transmission facilities for Unit #1-3, and has a 30% interest in Unit #4's generation through a sale-leaseback arrangement, as well as a 30% ownership interest in its transmission facilities. The Colstrip Transmission System was constructed to transmit the output of the Colstrip generating project to an interconnection with the Bonneville Power Administration near Townsend, Montana. This transmission system is divided into two distinct segments: Colstrip to Broadview and Broadview to Townsend. A specific discussion of this facility is provided later in this report.

The Utility owns and operates an internal communications system that provides protective relaying circuits and "system control and data acquisition" (SCADA) to the Systems Operation Control Center in Butte. This communication link provides for local area network circuits, voice traffic and two-way radio traffic, all used to provide dispatching capability for the entire service territory.

Natural Gas Transmission and Storage

The Utility transmits natural gas from production receipt points and storage facilities to distribution points and other non-affiliated transmission systems. The natural gas transmission system is comprised of over 2,000 miles of pipeline serving over 130 city gate stations and has strategic connections with four major, non-affiliated transmission systems. Seven compressor sites provide over 23,000 horsepower, capable of moving approximately 300 MMCFD. The Utility also operates three working storage reservoirs that have over 50 BCF of cushion and native gas. Over 9,200hp of compression provides over 185 MMCFD of peak deliverability.

The Utility also operates three underground propane distribution systems in Montana. One system serves the town of Townsend and is regulated by the Montana Public Service Commission. The other two systems serve Big Sky Resort and Anaconda Job Corps and are unregulated. Combined, these systems deliver approximately 1.1 million gallons of propane per year.

Other Operating Units

Canadian - Montana Pipe Line Corporation

Canadian - Montana Pipe Line Corporation is a wholly owned subsidiary of NE established to handle the cross border importation of Canadian natural gas. The company pipeline commences at the Nova Pipeline, terminating at the U.S./Canadian border where it connects with the Company's gas transmission pipeline.

One Call Locators, Ltd.

One Call Locators ("OCL") is wholly owned subsidiary of NE, located in Missoula, Montana, that provides utility line locating services. OCL targets utilities with underground wires and pipes for its line locating services. OCL has successfully deployed an aggressive service strategy in North and South Dakota, Minnesota, Arizona,



Montana, Idaho, and Utah. OCL currently maintains 23 contracts for line locating services, and also performs private location services on an as-needed basis.

Montana Power Capital I

This entity exists for the sole purpose of issuing trust securities and holding junior subordinated debt as trust assets. Since this business does not own any tangible assets, we have not assigned any value to this entity.

Discovery Energy Solutions (a/k/a Energy Productivity Improvement Group)

This entity provides unregulated, energy-related products and services to industrial, institutional and commercial customers. It adds value for its customers by lowering their cost-of-goods through methods aimed at reducing energy costs. Since this business does not own any tangible assets, we have not assigned any value to this entity.

Montana Power Capital Natural Gas Funding Trust

This trust was borne from a Montana Public Service Commission ("MPSC") order instructing the Utility to transfer substantially all of its natural gas production assets to unregulated affiliates. The trust was established to issue transition bonds to refinance these transition costs for the benefit of natural gas customers. Since this business does not own any tangible assets, we have not assigned any value to this entity.

Regulatory and Operating Environment

The electric and natural gas utility business is regulated by the MPSC and the Federal Energy Regulatory Commission ("FERC"). MPSC regulates private and investor-owned natural gas, electric, telephone water and private sewer companies operating in Montana. The FERC has jurisdiction over wholesale service to rural electric cooperatives and electric transmission.

Montana's Electric Industry Restructuring and Customer Choice Act provided large industrial customers with choice of commodity supply beginning July 1, 1998. Pilot supply programs for residential and small commercial customers began November 2, 1998. Choice of supply for all customers was implemented as of July 1, 2002. The Utility has been designated a default supplier, and is obligated to continue to supply electric energy to customers in its service territory who have not chosen, or have not had an opportunity to choose, other power suppliers during the transition period. To meet these energy delivery requirements, the Utility executed power purchase agreements with PPL Montana, LLC through the transition period ending June 30, 2002. In its 2001 session, the Montana Legislature passed House Bill 474, which extends the transition period through Jun 30, 2007. This law provides for the use of a cost-recovery mechanism that ensures all prudently incurred electric energy supply costs of the default supplier are fully recoverable in rates charged to customers.

Montana's Natural Gas Utility Restructuring and Customer Choice Act provided that natural gas utilities, such as the Utility, could offer customers a choice of natural gas



suppliers by providing open access to the transmission and distribution system. The Utility has participated in open access since 1991. Currently, all customers have the ability to choose alternative suppliers.

With the divestiture of generation and production assets, the impact of customer choice on the Utility business is minimal. The energy component of the utility rate is a "pass through", allowing Company management to focus on the delivery and service aspects of the business. The Utility Business faces no direct competition in the transmission and distribution areas.

Overview of Assets Appraised

As previously discussed, our valuation of NE assets was primarily focused on the storage, transmission, and distribution Utility property assets, while providing a separate analysis for certain subsidiaries. The following is a summary of the major utility asset categories addressed in our analysis:

Electric Transmission – Land, rights-of-way, substation equipment, towers, poles, conductor, underground conduit and underground conductor.

Electric Distribution – Land, rights-of-way, structures, substation equipment, poles, conductor, underground conduit and underground conductor, transformers, overhead services and conductor, meters, and lights.

Gas Storage Plant – Land, storage rights, wells, lines, compressor station equipment, metering and regulating station equipment, and purification equipment.

Gas Transmission – Land, rights-of-way, land improvements/structures, compressor station equipment, mains, and measuring and regulating station equipment.

Gas Distribution – Land, plastic and steel mains, plastic and steel services, and meters and regulators.

General Plant Equipment - Communication equipment, office furniture and fixtures, data handling equipment, computers, transportation equipment, stores equipment, tools, laboratory equipment, power operated equipment, and microwave equipment.

Common Utility – Land, office structures, communication structures, office furniture, data handling equipment, computer hardware, computer software, and office communication.



Valuation Methodologies

Our study will consider, where appropriate, the three basic approaches to value: the market, cost and income approaches, which are summarized as follows:

Market Approach

Under the market approach, the fair value of the asset reflects the price at which comparable assets are purchased under similar circumstances. Use of the market approach requires that comparable transactions be available. This situation is most commonly found when the acquired asset is widely marketed to third parties. Under these circumstances, the market comparable approach represents the most appropriate approach for determining the fair value of the asset.

Cost Approach

In this approach the fair value of an asset is estimated as a function of the current cost to purchase or replace the asset. This is based upon the principle of substitution, which states that a prudent investor would pay no more for an asset than the amount necessary to replace the asset. The cost approach utilizes either a reproduction or CRN analysis. Reproduction cost (new) is the current cost of reproducing a new replica of an asset with the same or closely similar materials. CRN (new) is the current cost, new, of a similar new property having the nearest equivalent utility as the property being appraised. Upon completion of our reproduction and CRN new analysis, we adjusted the cost new values for depreciation and obsolescence as of the acquisition date, to give an indication of fair value.

Income Approach

The income approach is predicated upon the value of the future cash flows that an asset will generate over its remaining useful life. The first step involves a projection of the cash flows that the asset is expected to generate. This involves an analysis of financial information and discussions with marketing, operations, and financial personnel to develop the future income stream attributable to the asset. The second step involves converting these cash flows into a present value equivalent through discounting. This discounting process uses a rate of return that discounts for the relevant risk associated with the asset and the time value of money.

The fair value of the Utility property was determined through the cost and market approaches to value. We utilized the cost approach to determine the fair value of the operating property, and the market approach to determine the value of the real property.

We did not utilize the income approach to value for the Utility property due to the fact that it is rate-regulated property, and is a business that is expected to truly operate in



perpetuity. In completing a discounted cash flow model, it is desirable to be able to accurately forecast cash flows over a long time horizon. As it is very difficult to predict the outcome of future rate cases in this regulated industry, it is not common industry practice to complete long-term cash flow projections. In addition, due to the fact that the purpose of this business is to provide energy in perpetuity to all residents and businesses in the State of Montana (as opposed to, for example, a manufacturing plant that can be assumed to have a finite life), it is very difficult to compute an accurate terminal value at the end of the cash flow projection period. Due to these facts, we have considered, but not utilized the income approach in our analysis of the Utility property.

In the following section we provide a discussion of our approach and methodology for determining the fair value of each major Utility category, as well as for each of the NE subsidiaries holding tangible assets. It should be noted that no one formula or rule of thumb automatically yields a definitive determination of value. Each company and each situation involves unique factors. The valuation process combines the objective analysis of hard data with the application of experienced judgment to yield a reasonable conclusion.



Valuation of Assets

Real Property

Real property appraised consists of the following categories:

Land rights/Rights-of-Way

Utility Real Property (including Common Utility) – Fee Ownership

- Fee owned land (land under transmission lines)
- Fee owned land under service centers
- Fee owned land under substations
- Service Center Structures
- Offices

Future Use Gas Land

Non-Utility Property

Land Rights/Rights-of-Way

Based upon information provided by NorthWestern management, the rights-of-way ("ROW") totaled 6,853 linear miles for electric transmission and 2,000 linear miles for natural gas transmission, based upon an estimated 40' and 30' ROW width, respectively.

We have concluded on a fair value of \$36,183,340 and \$7,920,000 for the electric utility and gas utility ROW, respectively.

Utility Real Property – Fee Ownership

This category is made up of a significant number of land parcels and structures/improvements thereon. We have concluded the fair value of the utility real property to be: Common Utility - \$14,534,674; Montana Electric Real Property - \$5,212,970; MPC Gas Real Property - \$3,475,314.

Future Use Land

The Utility owns non-regulated land parcels in Bozeman and Great Falls, both acquired at minimal investment. We have concluded on a fair value of \$8,984 for these assets.

Other Non-Utility Land Parcels

The Utility owns a variety of other non-regulated land parcels. We have concluded on a fair value of \$2,930,874 for these assets.



Valuation of all other Tangible Assets

In determining the fair value of the tangible assets, we have relied primarily on the concepts of Reproduction Cost New less depreciation ("RCNLD") and Cost of Replacement New Less Depreciation ("CRNLD"). Under the CRNLD method, the Cost of Replacement New ("CRN") is based on the cost of constructing a facility that provides the same function as the subject facility but is modern in its utility and design. Another starting point in this approach is RCN, which is the cost of reproducing the property as of the Valuation Date based on the assumption that a replica of the property could be built as of the Valuation Date. CRN is RCN less any capital functional obsolescence that takes account of the erosion of RCN because of technological developments.

Once CRN is determined, it is necessary to make adjustments to account for the age and all of the infirmities, inefficiencies and obsolescence to the extent they may exist in the property at the Valuation Date. These reductions are due to the passage of time during which the property ages and deteriorates due to use and exposure to the elements. In addition, during this time new designs and technologies may have come about and, in some cases, changes in requirements of various public authorities may have occurred.

These deductions or adjustments are generally referred to as depreciation. Depreciation can be subdivided into its various forms, or categories, of physical depreciation (incurable and curable), operating functional obsolescence, and economic obsolescence. These forms of depreciation, if applicable, must be determined and deducted from the RCN and CRN in order to arrive at the fair value of the subject assets.

Based upon this methodology, we have utilized the following formula in calculating the fair value of the Subject Assets:

	Reproduction Cost New (RCN)
Less:	Capital Functional Obsolescence
<u>Equals:</u>	<u>CRN New (CRN)</u>
Less:	Physical Depreciation
Less:	Operating Functional Obsolescence
<u>Less:</u>	<u>Economic Obsolescence</u>
<u>Equals:</u>	<u>RCN or CRN Less Depreciation (or Fair Value)</u>

Our process commenced by conducting detailed discussions with NorthWestern's Transmission and Distribution engineering teams regarding questions about the history of the system, recent performance issues, routine upgrade and maintenance programs, and recent and projected major capital expenditure projects.

The CRN's were developed and provided based upon information provided by NorthWestern's engineering group utilizing current internal construction and acquisition



cost data from recently completed projects, as well as from projects currently under development and construction.

In computing our depreciation adjustments, we have determined that the effective age of the property has not increased since the completion of the prior valuation analysis (eleven months prior to Valuation Date utilized for this analysis). This is due to the fact that the Subject Assets have not incurred any significant permanent impairment due to extreme weather conditions, and that Management has certified that the assets have continued to operate in their expected function and condition during 2002.

We present our analysis and discussion by major business units and then by FERC regulatory account for the regulated assets, and then discuss the non-regulated assets.



Montana Power Company Electric Utility

Intangible Plant

This category includes the following accounts: Organization, Franchises & Consents, Computer Software, and BPA-Rattlesnake Line.

E301 – Organization – The investment in this asset category represents old costs incurred to incorporate Montana Power. We have not assigned any value to this category.

E302 – Franchises and Consents – The investment in this asset category represents the costs to obtain “franchise” rights to operate the utility in certain jurisdictions, and usually consist of one-time payments. We have determined the fair value to be equal to historical cost and; therefore, have concluded on a **fair value of \$2,000** for these assets.

E303.1 – Computer Software – The category consists of one major software package identified as Landvision Transmission Tracking and Load Scheduling, plus a number of smaller packages all of which are required and in use. We have determined the fair value to be equal to net book value and; therefore, have concluded on a **fair value of \$73,000** for these assets.

E303.3 – Bonneville Power Administration Rattlesnake Line – Montana Power desired created a tie into Bonneville Power Association’s (“BPA”) transmission grid. Montana Power incurred the entire cost of purchasing and installing tangible assets that included a “tie-in” transmission line between the two transmission systems, and additional substation equipment on BPA’s site. In return for BPA’s concession to construct this line, MPC turned over the entire ownership of the tangible property to BPA upon completion of construction. Montana Power then capitalized the entire investment as an intangible asset and began amortizing it over 30 years, and the MPSC allowed them to recover the investment by allowing its inclusion in rate base. We have concluded a **fair value of \$746,000** for these assets.

Transmission

This category includes the following accounts: Land, Land Rights, Structures, Substation Equipment, Towers and Clearing Land, Poles and Clearing Land, Conductor, Underground Conduit, Underground Conductor, and Roads and Trails. The concluded fair value was allocated where applicable between the Montana Electric and Colstrip No. 4 entities. Allocation between entities was based on a percentage calculated using original booked cost. The cost approach was used in valuing the Transmission assets unless indicated otherwise.



E352 – Structures – This asset category includes the civil construction located at the 55 transmission substation sites. Assets consist of buildings which house the controls, communication and switchgear, plus yard improvements which include site related roads, site development, fencing, gravel base, foundations and related assets.

Since Structures are an integral part of a substation, depreciation of Structures was based upon equipment depreciation as per account E353, concluding on a fair value of \$6,566,000, allocated as follows:

E352 - Montana Electric, Structures -	\$6,369,000
EC352 - Colstrip No. 4, Structures -	\$ 197,000

E353 – Substation Equipment – This asset category includes 55 substations having a total capacity of 8055 MVA, and a Systems Operating Control Center (“SOCC”). Asset inventory and substation data was based on a FERC report dated December 31, 2001 (“FERC Report”). Substation equipment includes transformers, breakers, equipment steel structures, insulators, bus bar, local controls and communication and related assets. The control center is located in Butte and includes the Emergency Management System, control board, console system hardware and software with related assets.

We concluded on a fair value of \$143,363,000 for the Substations and SOCC, allocated as follows:

E353 - Montana Electric Substation Equipment -	\$139,062,000
EC353 - Colstrip No. 4 Substation Equipment -	\$ 4,301,000

E354 – Towers and Clearing Land Account – This asset category includes the NE owned portion of these assets. Assets include a total of 495.13 miles of transmission lines divided into five independent 500kV high voltage transmission lines, which was based upon inventory and transmission data from the FERC report. Tower line equipment includes steel tower structures, fittings, installation and clearing of rights-of-way and related assets.

We concluded on a fair value of \$20,965,000 for the Towers and Clearing Land, allocated as follows:

E354 - Montana Electric, Towers and Clearing -	\$17,191,000
EC354.1 - Colstrip No. 4, Towers and Clearing -	\$ 3,774,000
(see additional Colstrip amount below)	

E355 – Poles and Clearing Land Account – This asset category includes 6,274.26 miles of wood pole electric transmission lines, ranging in voltage from 230 to 50KV, based upon data from the FERC report. Pole line equipment includes wood poles, cross arms, supports, fittings, installation and clearing of rights-of-way and related assets.



We concluded on a fair value of \$90,698,000 for Poles and Clearing Land, allocated as follows:

E355 - Montana Electric Poles and Clearing -	\$90,653,000
EC354.1 - Colstrip No. 4 Towers and Clearing -	\$ 45,000

E356 – Conductor Account – This asset category includes conductor wire installed on towers and poles as identified in accounts E354 and E355. Assets include tower and pole mounted conductor wire and related devices. We have concluded on a fair value of \$75,034,000, allocated as follows:

E356 - Montana Electric, Conductors -	\$72,382,000
Tower Conductors - \$11,946,000	
Pole Conductors - \$60,436,000	
E356 - Colstrip No. 4, Conductors -	\$ 2,652,000
Tower Conductors - \$2,622,000	
Pole Conductors - 30,000	

E357 – Underground Conduit – This asset category includes the underground conduit at the Hamilton Heights and Hamilton Heights substations located at the Bitterroot Valley development, which was installed in 1999. RCN of \$37,000 was based upon the historical cost being indexed for inflation, and then depreciating this value by 10% to conclude on a **fair value of \$33,000** for these assets.

E358 – Underground Conductor – This asset category includes a 2.4-mile below ground electric conductor line located in the Bitterroot Valley development, which was installed in 1999. The CRN of \$899,000 was based upon the historical cost being indexed for inflation, and then depreciating this value by 10% to conclude on a **fair value of \$809,000** for these assets.

E359 – Roads and Trails – This asset category includes roads and trails that were constructed at time transmission lines were built. Once transmission lines are completed, these roads and trails are normally abandoned and not maintained or required since access to rights-of-way becomes the rights-of-way itself. Therefore, we have not assigned any value to these assets.

Distribution

This category contains assets used to distribute electricity, which are physically located between the transmission and customer's property. Distribution accounts include: Land, Land Rights, Structures, Substation Equipment, Poles, Conductor, Underground Conduit, Underground Conductor, Transformers, Service Overhead, Service Underground, Meters



and Lights. The cost approach was used in valuing the Distribution assets unless indicated otherwise.

E361 – Structures - This asset category includes the civil construction located at the large capacity substation locations. Assets consist of buildings, which house the controls, communication and switch gear, plus yard improvements which includes site related roads, site development, fencing, gravel base, foundations and related assets. We concluded on a **fair value of \$5,768,000** for these assets.

E362 – Substation Equipment - This asset category includes 65 substations with a capacity of 10 MVA or greater, and 214 substations with a capacity of under 10 MVA or less, based upon data from the FERC report. Substation equipment includes transformers, breakers, equipment structures, insulators, bus bar, local controls, communication and related assets.

Depreciation was applied based upon the following parameters: 30% excellent condition; 40% mid-life; and 50% if in fair condition. Based upon our analysis, we concluded on a **fair value of \$73,057,000** for these assets.

E364 – Poles - This asset category includes 11,522 miles of wood pole electric distribution lines. Asset information was based upon reports provided by NorthWestern management, which state that 16,460 miles of overhead and underground lines exist. Of the total miles, approximately 70% are overhead lines. Pole line equipment includes wood poles, cross arms, supports, fittings, installation and clearing of rights-of-way and related assets.

Depreciation is based upon the conclusion that 20% of lines are in very good condition, 50% are of mid-life depreciation, and 30% being in fair condition. Based upon this analysis, we concluded on a **fair value of \$88,931,000** for these assets.

E365 – Conductor - This asset category includes the 3-phase and single-phase wire mounted on 11,522 miles of distribution electric lines as indicated in account E364 and whose equipment includes the wire and related fitting.

Depreciation is based upon our estimate that 20% of these assets in very good condition, 50% are of mid-life depreciation, and 30% being in fair condition. Based upon this analysis, we concluded on a **fair value of \$88,931,000** for these assets.

E366 – Underground Conduit - This asset category includes 1,481.4 miles of conduit buried below ground and used to protect the conductor. Conduit is located adjacent to substations, transformers, and poles, where the conductor goes from overhead to underground and primarily where a high probability of damage to the conductor could occur. The assets consist of steel or plastic conduit with fittings.



Depreciation was based upon 30% of the assets being in very good condition, 40% of mid-life depreciation, and 30% being in fair condition. Based upon this analysis, we concluded on a **fair value of \$7,310,000** for these assets.

E367 – Underground Conductor – This asset category includes 4,938 miles of underground conductor, of which 1,975.2 miles are 3-phase wire and 2,962.8 miles are single-phase wire. Assets consist of conductor, raisers, fittings and related equipment.

Depreciation is based upon 30% of conductor being in very good condition, 40% of mid-life depreciation, and 30% being in fair condition. Based upon this analysis, we concluded on a **fair value of \$68,697,000** for these assets.

E368 – Transformers – This asset category includes pole and pad mounted transformers, serving residential, commercial and industrial customers. These transformers mainly range in size from 25 to 75 kVa, with a count of approximately 60,000 residential and 36,000 commercial units (these figures include a small number of industrial customers). Assets consist of transformers, pads or mountings and fittings.

Depreciation was based upon 40% of the assets being in very good condition, 40% mid-life of mid-life depreciation, and 20% being in fair condition. Based upon this analysis, we concluded on a **fair value of \$83,556,000** for these assets.

E369.1 – Services-Overhead – This asset category consists of electric services commencing at overhead distribution power lines, and terminating at the point the customer takes ownership. Customer service overhead entries consist of 180,697 residential (average 75 ft. of #4 triplex), 44,484 commercial (average 100 ft. of #2 triplex), 59 industrial (average 200 ft. of #2 parallel 3/50), 3,725 streetlights (average 100 ft. of #2 triplex), and 218 special meters (average 200 ft. of #2 parallel 3/50). The assets consist of overhead conductor and related fittings.

Depreciation was based upon 40% of the assets being in fair condition, and 60% of the assets being in good condition. Based upon this analysis, we concluded on a **fair value of \$18,737,000** for these assets.

E369.2 – Services-Underground – This asset category includes electrical service commencing at underground distribution power conductors and terminating at the point customer takes ownership. Customer service underground entries consist of 60,000 residential services (average 80 ft.) and 4,200 commercial services (average 150 ft. of underground conductor). The assets include underground conductor, connection to the distribution conductor, and fitting at the meter.

Depreciation was based upon average age of 20 years (assets in good condition). Based upon this analysis, we concluded on a **fair value of \$38,634,000** for these assets.



E370 – Meters – This asset category includes general and category E370.1 Special Meters. Meters are used to meter electricity sold to a customer and are physically located on customer premises. Meters are grouped by type, which can be classified as follows: residential-240,697; commercial and street lighting-55,409; special meters/industrial-277; spare meters – residential-975; and spare meters - commercial-688.

Depreciation was based on the meters being of mid-life depreciation. Based upon this analysis, we concluded on a **fair value of \$26,142,000** for these assets.

E373 – Lights – This asset category includes street lighting, yard lighting and post top lighting, for a total of 88,588 light fixtures. Street lighting (39,865 fixtures) is lighting mainly located in cities adjacent to a city street; yard lighting (31,006 fixtures) is lighting generally located in rural areas; and post lighting (17,718 fixtures) is decorative lighting mounted on a post generally no greater than 4 ft. in height. Lighting equipment includes poles, and where applicable, lighting fixtures and related wiring and controls.

Depreciation was based on the fact that 90% of streetlight fixtures are old style and will be replaced over the next 15 years; yard lighting was installed mainly in the 1960-1970's and past mid-life; while an upgrade program is current in place for post top lighting. Based upon this analysis, we concluded on a **fair value of \$24,767,000** for these assets.

General Plant

These assets are used solely in Montana Electric and not shared with any other entity. The following accounts are included in this category: Land, Land-Communication, Structures Office, Communication Structures, Office Furniture, Data Handling Equipment, Computer Equipment, Transportation, Stores Equipment, Tools and Equipment, Laboratory Equipment, Power Operated Equipment, Microwaves Equipment, Other Communication, Office Communications, and Miscellaneous Equipment. In most cases the total assets in an asset class have been valued as a whole, and then allocated to respective accounts within a function, based on usage or percentage calculated based on original booked cost. The cost approach was used in valuing the General Plant assets unless indicated otherwise.

E390.6 – Structures-Communication - This asset category includes the electrical portion of the structure pertaining to the microwave 500kVa system. For details concerning the valuation of these assets, please reference account C397.1 below. Based upon our analysis, we have concluded a **fair value of \$107,000** for these assets.

E391 – Office Furniture – This asset category includes office furniture located in the electrical facilities. Office furniture includes all furniture associated with an office including movable partitions. For details concerning valuation of these assets, please reference the Common Utility property section, account C391. Based upon our analysis, we have concluded a **fair value of \$153,000** for these assets.



E391.1 – Data Handling Equipment – This asset category includes company owned office machines located in the electrical entity. For details concerning valuation of these assets, please reference the Common Utility property section, account C391.1. Based upon our analysis, we have concluded a **fair value of \$70,000** for these assets.

E391.2 – Computer Equipment – This asset category includes company computer hardware. For details concerning valuation of these assets, please reference the Common Utility property section, account C391.2. Based upon our analysis, we have concluded a **fair value of \$54,000** for these assets.

E392 – Transportation – This asset category includes licensed vehicles consisting of passenger cars, ½ ton trucks, ¾-ton trucks, one to three ton trucks, line trucks, tractor trucks and trailers.

Valuation of vehicles was based upon the market approach, utilizing published data. The basis for the data is the expected cost to purchase a similar unit in the used equipment market, with consideration given to special features where deemed appropriate. Vehicles were in “mid-life” depreciation and reported to be in good condition. Based upon our analysis, we have concluded a **fair value of \$9,417,000** for these assets.

E393 – Stores Equipment - This asset category includes minor plant equipment such as pallet trucks, hand trucks, steel racking, shelving, tote bins, carts, floor sweeper, janitorial items, pallet racking, ladders, cabinets, platform trucks, fork trucks, floor scale, stands, pallets, benches and other similar items.

Depreciation was considered to be mid-life, as the assets are in good condition. Based upon our analysis, we have concluded a fair value of \$257,000 for these assets, allocated as follows:

E393 - Stores Equipment -	\$252,000
G393 - Stores Equipment -	\$5,000

E394 – Laboratory Equipment - This asset category includes all shop and garage equipment, consisting of hand and power tools, maintenance shop equipment, portable generators, locators, overhead vehicle hoists, welders, lawn maintenance equipment, crew truck tools and similar items.

Depreciation was considered to be mid-life, as the assets are in good condition. Based upon our analysis, we have concluded a fair value of \$3,327,000 for these assets, allocated as follows:

E394 - Tools and Equipment -	\$2,329,000
G394 - Tools and Equipment -	\$998,000



E395 – Laboratory Equipment – This asset category includes ground fault locators, fluke meters, test panels, tong testers, voltmeters, watt-hour meters oscilloscopes, distance measurement instruments, fiber optic relaying, MW analyzers, light source meters, noise testers, Ditchwitch locators, recorders, impulse generators, survey instruments, TY shop equipment, tension meters, VF transmission testing, meter and shop instrumentation and related assets.

Depreciation was considered to be mid-life, as the assets are in good condition. Based upon our analysis, we have concluded a fair value of \$2,729,000 for these assets, allocated as follows:

E395 - Laboratory Equipment -	\$2,292,000
G395 - Laboratory Equipment -	\$437,000

E396 – Power Operated Equipment – This asset category consists of construction type equipment including backhoes, trenchers, air compressors, fork trucks, wire pullers, floor sweepers, welders, snowmobile and ATV's.

Valuation of this equipment was based upon the market approach, utilizing published data. The basis for the data is the expected cost to purchase a similar unit in the used equipment market, with consideration given to special features where deemed appropriate. The equipment is of "mid-life" depreciation and reported to be in good condition. Based upon our analysis, we have concluded a fair value of \$1,624,000, allocated as follows:

E396 – Power Operated Equipment -	\$1,192,000
G396 – Power Operated Equipment -	\$422,000

E397.1 – Microwave Equipment – This asset category includes the portion of these assets owned by NE. The Microwave system is a digital microwave system extending from Colstrip to Garrison in parallel with the 500kV transmission line, with stubs to the SOCC in Butte, and Broadview substation. This system provides a communication system for computer data, power line relaying, supervisory control, data acquisition, operation and control of Colstrip project facilities. The system assets consist of digital microwave radio equipment, fiber optic equipment, digital multiplex channel equipment, and backup power equipment including chargers, batteries, and generators at 16 locations.

Major upgrading will be done starting within 5 years. As such, with our depreciation based upon a normal useful of life 20 years, with an expected remaining life of 8 years (60% depreciation). Based upon our analysis, we have concluded a fair value of \$630,000, allocated as follows:



E397.1 - Microwave Equipment -	\$422,000
E390.6 - Structures Communication -	\$107,000
EC390.6 - Structure Communication -	\$13,000
EC397.1 - Microwave Equipment -	\$88,000

E397.2 – Other Communication – This category consists of several systems that feed into the NEW SONET loop as outlined. The Centracom system is a dispatching console system that facilitates statewide dispatching for gas and electric field personnel. To facilitate the dispatching is a two-way radio system with ~16 repeaters throughout the state and base stations in a variety of locations, with approximately 1,000 mobile units as well as pagers. The UHF and VHF radio links feed gas and electric SCADA information into the backbone. Each one of the 1,400 circuits requires a variety of interface equipment: mux, modems, dsu/csu, cabling, and other support gear. Remote Terminal Units facilitate alarm reporting to a master in the Communications Control Center in Butte. The master system is then accessed remotely by field personnel located throughout the state.

For our depreciation computation, Centracom is considered to be at its mid-life, the two-way repeater and base consoles have a one-year remaining life; the UHF and VHF are at mid-life, the Multiplex is at mid-life; and the alarm master has a two-year remaining life. Based upon our analysis, we have concluded a fair value of \$6,240,000, allocated as follows:

C 397.2	Other Communications	\$5,710,000
EY397.2	Other Communications	31,000
G 397.2	Other Communications	437,000
EC397.2	Other Communications	62,000

E397.3 – Office Communication – This asset category includes the electric portion of the office communication equipment pertaining to the Ericsson telephone system. For details concerning valuation of these assets, please refer to the Common Utility section, account C397.3. Based upon our analysis, we have concluded on a **fair value of \$73,000** for these assets.

E398 – Miscellaneous Equipment – This asset category includes the electric portion of the miscellaneous equipment pertaining to office equipment assets. For details concerning valuation of these assets, please refer to the Common Utility section, account C398. Based upon our analysis, we have concluded on a **fair value of \$74,000** for these assets.

Colstrip Transmission System - Units 1-3

NE's ownership interest in the Colstrip Transmission System is subject to the terms of the December 1999 asset purchase agreement, in which NE sold off its generating asset



interests to PPL Montana. This agreement stipulates that if PPL Montana is unable to execute agreements with Puget Sound Energy and Portland General Electric Company to purchase their Colstrip-related interests, PPL Montana will purchase Colstrip Units 1-3 related interests in the Colstrip Transmission system for \$97,100,000.

NE and PPL Montana are currently in litigation regarding PPL's potential acquisition of the Colstrip Transmission System. As of December 31, 2002, NorthWestern booked this asset at \$65,000,000 due to the litigation proceedings. Therefore, we have concluded on a **fair value of \$65,000,000** for these assets.

Yellowstone National Park Electric Utility

The Company is the sole supplier of electric energy to Yellowstone National Park, and owns the electrical assets physically located within the park geographic area. Power is supplied to the system via the Gardner station. Functions include and are identified as: Other Production, Transmission, Distribution, and General. The cost approach was used in valuing the Yellowstone National Park assets unless indicated otherwise.

Other Production Assets

This category includes the following accounts: Structures and Improvements, Fuel Holders, Generators and Accessory / Miscellaneous Equipment.

EY341 – Structures and Improvements – This asset category includes two building structures functioning as enclosures for the diesel generators and associated equipment at the Grant and Old Faithful locations. Buildings are steel frame wood siding constructed, and are 1,800 and 2,000 square feet in size, respectively.

The buildings are in good condition, at mid-life, and we have therefore concluded on a **fair value of \$120,000** for these assets.

EY342 – Fuel Holder – This asset category includes 6 diesel fuel storage tanks that supply fuel to the generators, and have a total capacity of 51,000 gallons. Assets include double wall, environmentally designed fuel tanks set on concrete pads, and include the fuel sensing system and related piping.

The tanks are on average 10+ years old, at mid-life, and we have therefore concluded on a **fair value of \$64,000** for these assets.

EY344 – Generator – This asset category includes 6 standby diesel powered generators located; 2 at Old Faithful, 2 at Grant, 1 at Lake and 1 at Tower. The total capacity of generators is 9.2MW.



The generators are in good condition, at mid-life, and we have therefore concluded on a **fair value of \$1,049,000** for these assets.

EY345 – Accessory and Misc. Equipment – This asset category includes generator accessory equipment consisting of relays, generator controls, interconnecting wiring and support equipment.

Depreciation was based upon the fact that the Grant and Tower sites are at mid-life, Lake completed an entire replacement during 2001, and Old Faithful was budgeted for an entire asset replacement in 2002. Based upon these facts, we have concluded on a **fair value of \$153,000** for these assets.

Transmission

These assets are used to transmit electricity between the source of the power and the distribution system. Assets include poles and clearing land, conductor, switching station equipment, underground conduit and conductor, and roads and trails.

EY355 – Poles and Clearing Land – This asset category includes 93.6 miles of transmission lines. Assets include red cedar poles with cross arms, installation and right-of-way clearing.

Our depreciation adjustment is based upon the assets having an average age of just over mid-life, and we have then concluded on a **fair value of \$2,134,000** for these assets.

EY356 – Conductor – This asset category includes a total of 95.2 miles of conductor, 95.2 miles being overhead and 1.6 miles laid underground in conduit. Assets consist of overhead conductor 3-strand 1/0 copper wire with insulators, with the underground consisting of conductor, raisers, and related fittings.

Our depreciation adjustment is based upon the assets having an average age of just over mid-life, and we have then concluded on a **fair value of \$1,637,000** for these assets.

EY356.1 – Switching Station Equipment – This asset category includes 22 air breaker switches that control power to various usage areas.

Depreciation based on the fact that the breakers are all older style mechanical, and we have therefore concluded on a **fair value of \$33,000** for these assets.

EY357 – Underground Conduit/Conductor – This asset category includes 1.6 miles of conduit and 10,560 ft. of underground conductors located at various locations through out the electrical system.



Our depreciation adjustment was based upon the fact that the conduit is at mid-life, and underground conductor was installed in 1993, with all assets in very good condition. We have therefore concluded on a **fair value of \$569,000** for these assets.

EY359 – Road and Trails are used to access transmission lines and substations. Assets consist of road, trails, culverts, clearings and related assets.

As the assets are regularly maintained, we have concluded on a **fair value of \$63,000** for these assets.

Distribution

These assets are used to distribute electricity and are physically located between the transmission system and park-owned electric facilities. Accounts include: Land Rights, Substation Structures, Poles, Conductor, Underground Conduit and Conductor, Transformers, Service Overhead, Service Underground, Meters and Lights.

EY 361 – Substation structures and Equipment - This asset category includes 10 substations; 3 rated at 69kV and 7 at 50kV, for a total of 557kV. Assets include Substation, Structures, Transformer, Equipment Towers, Connections, Main and Secondary Breakers, Controls, Structure and Related Assets.

Our depreciation adjustment is based upon the fact that the Grant substation was built in 1993, with all others constructed in the mid 1950's, therefore concluding on a past mid-life effective age. We have therefore concluded on a **fair value of \$1,448,000** for these assets.

EY 364 - Poles – These assets are used to distribute electricity in the Yellowstone National Park developed area. Assets include red cedar poles, cross arm supports and installation.

Our depreciation adjustment is based on the fact that the average age of the poles is 30 years and; therefore, past mid-life. We have therefore concluded on a **fair value of \$178,000** for these assets.

EY365 – Conductor – This asset category includes the conductor used to transport electricity in the distribution system. Assets include conductors and fittings.

Our depreciation adjustment is based upon the fact that the average age of the conductor is 30 years and; therefore, past mid-life. We have therefore concluded on a **fair value of \$261,000** for these assets.



EY 366 – Underground Conduit and Conductor - This category includes underground conduit with conductors and conductors not installed in conduit, plowed in, used to transport electricity in the distribution system.

Our depreciation adjustment is based upon the fact that conductor and conduit were installed early 1970's, just past mid-life; with a separate installation occurring between 1987 and 1991 (these assets are in good condition). We have therefore concluded on a **fair value of \$1,918,000** for these assets.

EY368 – Transformers – This category includes small distribution transformers that generally pole mounted. Assets include transformers, mounting brackets, connections and installation.

Our depreciation adjustment is based upon the fact that the transformers were installed in the early 1970's, and are in condition good, just past mid-life. We have therefore concluded on a **fair value of \$429,000** for these assets.

EY369.1 – Services-Overhead – This asset category includes overhead electrical service commencing at overhead distribution power lines, and terminating at point of ownership by Yellowstone National Park.

Our depreciation adjustment is based upon the fact that the installation occurred primarily in the early 1980's, with the assets now being just over mid-life. We have therefore concluded on a **fair value of \$10,000** for these assets.

EY369.2 – Services-Underground – This asset category includes underground electrical service commencing at underground distribution power conductor, terminating at a point Yellowstone National Park takes possession.

Our depreciation adjustment was based upon the fact that the installation occurred primarily from the 1970's to early 1980's, with the assets now being just over mid-life. We have therefore concluded on a **fair value of \$162,000** for these assets.

EY370 - Meters –Our depreciation adjustment is based upon a 30-year asset age with an expected 10-year remaining useful life. We have therefore concluded on a **fair value of \$21,000** for these assets.

EY373 – Lights –Our depreciation adjustment is based upon an average age of 25-years old, which is just over mid-life. We have therefore concluded on a **fair value of \$24,000** for these assets.



General Assets

These assets are used to support company operations in Yellowstone National Park. Accounts include Structures, Transportation/Trailer, Transportation/ATV, Tools and Laboratory Equipment and Other Communication and Miscellaneous Equipment.

EY390 – Structures – This asset category includes miscellaneous and multi-purpose structures. Assets consist of 2 equipment repair structures located at Old Faithful and Lake substations, and 5 trailer houses. We have placed minimal value on the trailers as the Yellowstone National Park Board has requested the company remove the trailers from park. We have therefore concluded on a **fair value of \$160,000** for these assets.

EY392.2 – Transportation/Trailers – This asset category includes one Ditchwitch trailer with a CRN of \$5,000. Our depreciation adjustment is based upon the fact that the trailer is estimated to be 15 years old and in good condition. We have therefore concluded on a **fair value of \$2,000** for this asset.

EY392.7 – Transportation/ATV's – This asset category includes three snowmobiles, three ATV's and one snowcat. The total CRN for these items is \$65,000, and the value is based on what it would cost to acquire these in the used market. We have therefore concluded on a **fair value of \$39,000** for these assets.

EY394 – Tools and Laboratory Equipment – This asset category includes miscellaneous items consisting of hand and power tools, electric test meters and other miscellaneous items. As these assets are considered to be at mid-life, we have concluded on a **fair value of \$25,000**.

EY397.2 – Other Communication – This asset category includes a base station repeater, antenna and 2-way radios at a CRN of \$250,000. Our depreciation adjustment was based upon a past mid-life effective age. After this deduction we added \$31,000 in fair value to represent the allocation of SONET Loop Communication System. For details of allocated amount, please refer to Montana Power Electric account E397.2. We have therefore concluded on **fair value of \$125,000** for these assets.

Montana Power Company Natural Gas Utility

The regulated natural gas utility purchases, transports, distributes and stores natural gas for over 151,000 customers in 109 communities throughout Montana. The natural gas utility also serves several smaller distribution companies that provide service to approximately 28,000 customers. Peak capability is approximately 300 million cubic feet per day and approximately 50 billion cubic feet is moved annually on the system. Three natural gas storage fields provide up to 185 MMCFD of peak day deliverability. Functions that pertain to Natural Gas entity include: Tangible Assets, Storage,



Transmission, Distribution and General. The cost approach was used in valuing the Natural Gas assets unless indicated otherwise.

Intangible

This asset category includes three accounts: Franchise and Consents, Computer Software and Air Quality Permits.

G302 – Franchises and Consents - This asset category represents one-time payments to obtain “franchise rights” to operate the utility in a given jurisdiction. Some annual payments may be made for certain access (alleys, etc.). We have determined the fair value to be equal to historical cost and; therefore have concluded on a **fair value of \$40,000** for these assets.

G303.1 – Computer Software – This asset category consists of four “canned” gas-related software packages. These packages are made up of two digitalized gas mapping programs, one gas transmission and measurement program and one corrosive data program.

The CRN was determined to be equal to historical cost. We have therefore concluded on a **fair value of \$32,000** for these assets.

G303.6 – Air Quality Permits – This asset category consists permits that are required at each compressor station, storage or transmission, for NOx emissions. The emissions are created by natural gas internal combustion engines that drive compressors. The permits are issued by the Montana Department of Environmental Quality through the Air Quality Bureau, and are governed by the Montana Clean Air Act (“MCCA”) and the Federal Clean Air Act (“FCAA”). The MCCA provides for the state administration of the program, while the regulations are created by both the MCCA and the FCAA.

There are twelve total compressor stations in service now, four for storage and eight for transmission, and each station is required to have a permit. We have concluded on a **fair value of \$144,000** for these assets.

Natural Gas Storage Plant Assets

This category consists of four underground, independently operated storage fields identified as Cobb, Dry Creek, Box Elder and Shelby. These fields are modified natural gas fields used to store and provide a gas supply to the transmission system during peak demands. Equipment assets at these sites include wells, wellheads with metering, gathering lines, compressors, dehydrators, related services and cushion gas. Also included at the Cobb and Dry Creek locations is equipment related to the producing gas and oil facilities.



Cushion Gas and Working Gas - Gas at the storage plants is made up of recoverable cushion and working gas. The working gas is sold to customers at cost, and there is no current intent to sell any of the cushion gas. We have therefore concluded that the book value of these assets as of December 31, 2002 of \$40,347,982 to be equal to fair value, segregated as follows:

Working Gas -	\$ 6,954,010
Cushion Gas -	\$33,393,972

The Cobb Gas Storage Plant is located in North Central Montana near Cut Bank and includes gas storage and oil producing operations. The gas storage field operates at a maximum of 793psi, with a capacity of 12 BCF of working gas and delivery of 128MMCF/D. Equipment includes 49 operating gas storage wells, and eight compressors with a total of 8,700 horsepower, and related equipment. Associated with the Cobb facility are 21 oil and gas producing wells; and the equipment includes the wells, pumps, crude and storage tanks, five gas compressors with a total horsepower of 2040, and related equipment. These facilities operate as designed, are in good condition, with short term plans to add two new storage wells.

The Dry Creek Gas Storage Plant is located in South Central Montana (south of Billings) and includes gas storage and oil producing operations. Gas storage field operates at a maximum of 1,200psi, with a working gas capacity of 5 BCF and delivery of 50 MMCF/D. Equipment includes thirteen operating gas storage wells, three compressors with a total of 2,500 horsepower, and related equipment. Associated with the Dry Creek facility are two oil-producing wells; and the equipment includes the wells, pump jacks, four tanks and related equipment. These facilities operate as designed, are in good condition. In approximately 10 years, the two oil-producing wells will be converted to gas storage.

The Box Elder Gas Storage Plant is located in North Central Montana near Havre. This storage field operates at a maximum of 400psi, with a working gas capacity of 700 MMCF and delivery of 10 MMCF/D. Equipment includes nine operating gas storage wells, two compressors with a total of 590 horsepower, and related equipment. This facility operates as designed and is in good condition.

The Shelby Gas Storage Plant is located in North Central Montana near the town of Shelby. This storage plant operates at a maximum of 30psi with a cushion gas volume of 85 MMCF and delivery of 10 MCF/D. Equipment includes three wells, each with its own wellhead, meter, and gathering lines. This facility is in good condition. Current plans are to remove all natural gas from the field and then abandon it. This is scheduled to occur sometime over the next eight years.



STORAGE AND PRODUCTION PLANTS SUMMARY
FAIR MARKET VALUE, EQUIPMENT
(\$000's)

FERC Acct.	Asset Type	Cobb Storage	Cobb Prod.	Dry Creek Storage	Dry Creek Prod.	Elder Storage	Shelby Storage	Totals
G351	Structures	\$626		\$150	\$15	\$28		\$819
G352.1	Wellhead	4,043	\$656	2,584	334	198	\$26	7,841
G353	Lines	10,492		292		56	9	10,849
G354	Compressor	5,010	612	1,200		227		7,049
G355	Measuring	368	15	114	15	18	2	532
G356	Purification	195		50		20		265
G357	Other Equip.	626	69	525	89	28		1,337
Totals		\$21,360	\$1,352	\$4,915	\$453	\$575	\$37	\$28,692

We have therefore concluded on a total fair value of \$28,692,000 for these assets.

Transmission

The division is responsible for transporting natural gas at high pressure in the range of 1,000psi. The plant commences at the Canadian-Montana border, and terminates at the distribution gates (or the Montana-Wyoming border). Transmission plant includes the following accounts: Structures, Mains, Compressor Stations, Measuring and Regulating Stations, Communication and Other Equipment.

G366 – Structures – This asset category includes buildings used to house and protect the compressors and related equipment. This account includes the building structure, concrete work, and yard improvements.

We have concluded on a fair value of \$1,321,000 for these assets.

G367 – Mains – This asset category includes 1,997.623 miles of steel pipe cathodically protected, ranging in size from 1 inch through 20 inches. Miles of pipe was based on the FERC report, long with a review of company records.

We applied a 60% depreciation adjustment to the remaining pipelines, as these assets are in good condition, but have an average age of 40 years. We have therefore concluded on a fair value of \$ \$230,290,000 for these assets..

G368 – Compressor Station Equipment – This asset category includes compressor station facilities strategically located along the transmission lines whose function is to boost pressure within these lines. Equipment consists of eight compressor stations, containing a total of 25 compressors and 26,420 horsepower, plus related equipment.



The compressors range in age from 1940 to current, but as they are overhauled on average every seven years, we consider them to be at mid-life. We have therefore concluded on a **fair value of \$14,531,000** for these assets.

G369 – Measuring and Regulating Station Equipment – This asset category includes a total of 127 stations physically located between the gas transmission and distribution system. At these stations, the gas pressure is reduced from 1000psi to a range varying from 20psi to 80psi, and is measured prior to being transferred to the distribution system.

Our depreciation adjustment is based upon the fact that we consider the assets to be at mid-life. We have therefore concluded on a **fair value of \$4,358,000** for these assets.

G370 – Communication Equipment – This asset category includes only the natural gas portion of the microwave equipment. For details concerning description and valuation of these assets, please refer to the Microwave Equipment account in the Common Utility section. We have concluded on a **fair value of \$36,000** for these assets.

G371 – Other Equipment – This asset category includes miscellaneous installation and repair tooling. The CRN of \$106,000 is based upon indexed historical cost. As the assets are considered to be at mid-life, we have concluded on a **fair value of \$53,000** for these assets.

Distribution

The division transports natural gas commencing after the measuring and regulatory station, and terminating at point of ownership by a customer. Equipment consists of main pipelines, measuring and regulating equipment, meters and service piping. Accounts include: Land, Land Rights, Equipment Structures, Mains/Steel Pipe, Mains/Plastic Pipe, Measuring and Regulating Equipment, Services/Steel Pipe, Services/Plastic Pipe, Meters and Regulators, Installation of Customer Meters, Installation of Large Meters, Installation of Meters and Regulators on Transmission Lines and Installation Meters and Regulator Station Equipment.

G375 – Structures – This asset category consists of a number of small structures used to protect meters, regulators or controls from the environment. These structures are generally set on concrete floor with footing.

Based upon this information, we have applied a 60% depreciation adjustment to the CRN, and have therefore concluded on a **fair value of \$40,000** for these assets.

G376.1 – Mains/Steel Pipe – These assets are used to transport gas between measuring and regulating stations to the service piping. This account includes 1,294 miles of cathodically protected steel pipe (amount from FERC report). The size of the pipe size ranges from two inches in diameter, or less, to over twelve inches in diameter.



The average age of the piping is 30+ years, but the pipe is in good condition and considered just over mid-life. We have therefore concluded on a **fair value of \$16,860,000** for these assets.

G376.3 – Mains/Plastic Pipe – These assets are used to transport gas between measuring and regulating stations to the service piping. This account includes 2,577 miles of plastic pipe (data from FERC report). The pipe sizes range from two inch diameter, or less, through eight inch diameter.

We have concluded on a **fair value of \$53,724,000** for these assets.

G378 – Measuring and Regulating Equipment – This asset category includes twelve gas odorizers located at various sites throughout the distribution system, plus 1,200 farm taps.

For our depreciation adjustment, the odorizers were considered to be at mid-life; while 20% of the farm taps are five years old or less, 60% mid-life to over mid-life, and 20% being old and not to up to current code. Based upon this information and our analysis, we have concluded on a **fair value of \$1,590,000** for these assets.

G380 – Services/Steel Pipe – This asset category includes service entrances that commence at taps physically located on distribution pipeline, and terminate at regulators normally located on customer premises. Per the FERC report, 12/31/01 there are a total of 76,712 steel service entrances ranging in size from two inch diameter to eight inch diameter, of which 98% are one inch or less.

Our depreciation adjustment was based upon the fact that 95% of the steel piping is older than 1970 vintage and; therefore, past mid-life. We have therefore concluded on a **fair value of \$11,429,000** for these assets.

G380.1 – Services/Plastic Pipe – This asset category includes service entrances that commence at taps physically located on distribution pipeline, and terminate at regulators normally located on customer premises. Per the FERC report, there are total of 81,632 plastic service entrances ranging in size from one inch or less through eight inches in diameter, of which 99% are one inch or less.

Our depreciation adjustment was based upon the fact that NE began installing plastic pipe in 1970's, with most during the late 1980's and into the early 1990's, with the currently in very good condition. We have therefore concluded on a **fair value of \$28,043,000** for these assets.

G381 – Meters and Regulators – This category includes the cost of material only of the gas meters and regulators, including all meters and regulators physically located on customer premises and spare units. The size of units ranges from one inch or less in diameter to over two inches in diameter, of which 98% are one inch or less in size.



The assets are repaired and replaced on an "as needed" basis, and we have concluded them to be at mid-life for depreciation purposes. We have therefore concluded on a **fair value for \$10,641,000** for these assets.

G382.1 – Installation of Customer Meters – This category includes cost of labor, miscellaneous materials and overhead to install 158,166 meters and regulators in sizes of one inch or less in diameter through 2 two inches in diameter. We have concluded on a **fair value of \$10,341,000** for these assets.

G382.2 – Installation of Large Meters – This asset category includes the cost of labor, miscellaneous materials, and overhead expenses to install 178 large meters and regulators, two inches in diameter or greater. We have concluded on a **fair value of \$45,000** for these assets.

G382.3 – Installation of Regulators and Meters on Transmission Lines – This asset category includes the cost of labor, miscellaneous materials, and overhead expenses to install meters and regulators on transmission lines that directly supply natural gas to large industrial users.

Our depreciation adjustment is based upon the assets being past mid-life condition (good-to-fair condition). We have therefore concluded on a **fair value of \$73,000** for these assets.

G385 – Industrial Meters and Regulator Equipment – This asset category includes miscellaneous support equipment. The CRN of \$73,000 was based upon indexed historical cost, and depreciation based upon a mid-life condition. We have therefore concluded on a **fair value for \$37,000** for these assets.

General Assets

These assets are used only in the natural gas entity and not shared with any other entity. The following accounts are included in the general asset function: Land, Land Rights, Structures Service Center, Communication Structures, Office Furniture, Data Handling Equipment, Computer Equipment, Transportation, Stores Equipment, Tools and Equipment, CNG Fill Stations, Laboratory Equipment, Power Operated Equipment, Other Communication Equipment, Office Communications Equipment and Miscellaneous Equipment. In most cases the total assets in an asset class have been valued as a whole, and then allocated to respective accounts within a function, based on usage or percentage calculated based on original booked cost. The cost approach was used in valuing the General Plant assets unless indicated otherwise.

G390.6 – Structures – This asset category includes only the natural gas portion of structure communication that consists of the microwave backbone system, comprised of a loop with three major stubs feeding it. For details concerning the description and



valuation of these assets, please refer to account C390.6 in the Common Utility section of this report. We have concluded on a **fair value of \$36,000** for these assets.

G391 – Office Furniture and Equipment – This asset category includes only office furniture located in the natural gas facilities. Office furniture includes all furniture associated with an office, including movable partitions. For details concerning the description and valuation of these assets, please refer to account C391 in the Common Utility section of this report. We have concluded on a **fair value of \$46,000** for these assets.

G391.1 - Data Handling Equipment – This asset category includes only data handling equipment located in the natural gas entity. For details concerning the description and valuation of these assets, please refer to account C391.1 in the Common Utility section of this report. We have concluded on a **fair value of \$12,000** for these assets.

G391.2 – Computer Equipment – This asset category includes only computer equipment located in the natural gas entity. For details concerning the description and valuation of these assets, please refer to account C391.2 in the Common Utility section of this report. We have concluded on a **fair value of \$213,000** for these assets.

G392 – Transportation – This asset category includes licensed vehicles consisting of passenger cars, 1/2 ton trucks, 3/4 ton trucks, one to three ton trucks, semis and trailers.

Valuation of vehicles was based upon the market approach, given what it would cost to purchase a similar unit in the used equipment market today, with consideration given to special features where deemed appropriate. Vehicles were at mid-life condition and considered to be in good condition. We concluded on a **fair value of \$1,893,000** for these assets.

G393 – Stores Equipment – This asset category includes only minor plant equipment located in the natural gas facilities. For details concerning the description and valuation of these assets, please refer to account C393 in the Montana Power Electric Utility section of this report. We have concluded on a **fair value of \$5,000** for these assets.

G394 – Tools and Equipment – This asset category includes only shop and garage equipment and tools located in the natural gas facilities. For details concerning the description and valuation of these assets, please refer to account C394 in the Montana Power Electric Utility section of this report. We have concluded on a **fair value of \$998,000** for these assets.

G394.2 - CNG Fill Stations – This asset category refers to the compressed natural gas fill stations that were established to provide gas to vehicles; however, this technology never materialized on a large-scale basis. While certain stations do serve some large customers and will probably keep operating, they generate minimal positive cash flow.



Based on these facts and our discussion with NorthWestern, regarding this business, we agree that significant and permanent economic obsolescence exists for these stations.

We have therefore concluded on a **fair value of \$100,000** for these assets.

G395 – Laboratory Equipment – This asset category includes only laboratory type equipment located in the natural gas facilities. For details concerning the description and valuation of these assets, please refer to account C395 in the Montana Power Electric Utility section of this report. We have concluded on a **fair value of \$437,000** for these assets.

G396 – Power Operated Equipment – This asset category consists of construction type equipment including backhoes, trenchers, air compressors, fork trucks, wire pullers, floor sweepers, welders, snowmobile and ATV's.

Valuation of power operated equipment was based on the market approach, given what it would cost to purchase a similar unit in the used equipment market today, with consideration given to special features where deemed appropriate. The equipment was considered to be in good condition, at mid-life. We have therefore concluded on a **fair value \$432,000** for these assets.

G397.2 – Other Communication Equipment - This asset category includes only communication equipment located in the natural gas facilities. For details concerning the description and valuation of these assets, please refer to account C397.2 in the Montana Power Electric Utility section of this report. We have concluded on a **fair value of \$437,000** for these assets.

G397.3 – Office Communication Equipment – This asset category includes only the natural gas portion of the communication equipment pertaining to the Ericsson telephone system. For details concerning the description and valuation of these assets, please refer to account C397.3 in the Common Utility section of this report. We have concluded on a **fair value of \$28,000** for these assets.

G398 - Miscellaneous Equipment – This asset category includes only the natural gas portion of the miscellaneous equipment pertaining to office equipment assets. For details concerning the description and valuation of these assets, please refer to account C398 in the Common Utility section of this report. We have concluded on a **fair value of \$22,000** for these assets.

Common Utility Plant

Common Utility assets are assets utilized by NE to manage its utility business. Asset accounts include: Land, Land Communications, Structures, Software, Structures



Communication, Office Furniture, Data Handling Equipment, Computer Equipment, Microwave Equipment Office Communication and Miscellaneous Equipment. The cost approach was used in valuing the Common Utility assets unless indicated otherwise. Since a portion of a class of property may be assigned to two or more entities/accounts, the total assets within a class of property were valued. The concluded value was allocated where applicable between entities/accounts. This allocation was based upon book historical cost.

C303.1 – Software - Approximately 95% of the total investment in software is related to the SAP Enterprise Resource Planning system. The remainder of the common software is made up of approximately 21 purchased software packages.

The SAP software was valued on the cost approach, which was based on a CRNLD approach. Depreciation was calculated based upon a ten-year normal expected life, with and estimated five-year remaining useful life. The valuation of the 21 purchased software packages was concluded to be its net book value. All software is in use and will continue to be used during its remaining book life. We concluded on a **fair value of \$9,180,000** for these assets.

C390.6 – Structures-Communication – This asset category includes the backbone communications system, including equipment and structures, which is comprised of a loop with three major stubs feeding it. The loop is composed of nine hops Harris Farinon 145mb radios, and 350 miles of fiber optic cable. A major stub serving Missoula is hot standby digital microwave radio currently with T-1 capacity. A major stub feeding Havre and points to the north and east is serviced by newly installed digital microwave equipment. The third major stub is a fiber connection between the Great Falls 230 substation and Mainline #1, a major gas facility north and west of Great Falls. A considerable number of other digital and analog stubs feed into the SONET loop backbone.

Our depreciation adjustment was based upon a normal useful life of 20 years and an expected remaining life of seven years, concluding on a fair value for the microwave system (including structures and equipment) of \$3,577,000, allocated as follows:

G370	Communication Equipment	\$36,000
G390.6	Structure Communication	36,000
C390.6	Structure Communication	536,000
C397.1	Microwave Equipment	2,969,000

C391 – Office Furniture – This asset category includes all office furniture in various locations throughout the company, which includes the Butte headquarters, divisions, districts, energy building, garage, service area etc. Office furniture includes all furniture associated with an office, including movable partitions.



Our depreciation was based upon an estimated six-year remaining useful life and an expected normal life of fifteen years. We have therefore concluded on a fair value of \$1,532,000 for these assets, allocated as follows:

E391	Office Furniture	\$153,000
G391	Office Furniture	46,000
C391	Office Furniture	1,333,000

C391.1 – Data Handling Equipment – This asset category includes owned office machines consisting of printing service equipment, gas and electrical drafting equipment, billing center equipment and general office machine such as faxes, typewriters, check writers, desk top calculators and similar machines. The majority of copiers are leased.

Data handling equipment was valued based upon the market approach, and we have concluded on a fair value of \$585,000, allocated as follows:

E391.1	Data Handling	\$70,000
G391.1	Data Handling	12,000
C391.1	Data Handling	503,000

C391.2 – Computer Equipment – The Information Systems department has the responsibility of acquiring and maintaining the hardware and software. The system operation is defined as a 100% client server environment.

The company leases all hardware including approximately 120 central servers and 900 workstations that include desktop PC's, laptops and peripheral equipment. Equipment owned by the company is directly related with the ethernet network protocol that operates throughout the company. This system includes the hubs and building wiring. Also included in the equipment value is the value to install the leased equipment. Other owned miscellaneous hardware includes a 55 Gateway PC's, a few servers, older printers, and general hardware such as cables and connectors.

We have concluded on a total fair value of \$452,000 for these assets, allocated as follows:

E391.2	Computer Equipment	\$54,000
G391.2	Computer Equipment	213,000
C391.2	Computer Equipment	185,000

C397.1 – Microwave Equipment – This asset category includes the Common Utility portion of the microwave equipment account that consists of the microwave backbone system, which is comprised of a loop with three major stubs feeding it. For details concerning the description and valuation of these assets, please refer to the Common



Utility Section, account C390.6. We have therefore concluded on a fair value of \$2,969,000 for these assets.

C397.3 - Office Communication – This asset category consists of the telephone system. This system includes PBX equipment and telephones that serve the general office, system operating controls center, and the headquarters building. Other segments of the network consist of five remote division systems servicing Bozeman, Billings, Great Falls, Missoula and Helena; a five-station Toshiba system, and a call center switch that is also part of the system.

The expected normal useful life of the system is ten years, with an estimated remaining useful life of five years. We have therefore concluded on a fair value of \$813,000 for these assets, allocated as follows:

C397.3	Office Communications	\$73,000
G397.3	Office Communications	28,000
C397.3	Office Communications	707,000
EC397.3	Office Communications	5,000

C398 – Miscellaneous Equipment – This asset category includes miscellaneous electric powered office equipment normally found in an office or supporting area, and consists of items such as VCR's, televisions, ice machines, domestic kitchen appliances, cameras, duplicators, displays, signs, audio visual equipment, camcorders, microphones, tripods, janitorial items, window covering and related assets.

As the equipment was considered to be at mid-life condition, we have concluded a fair value of \$740,000 for these assets, allocated as follows:

E398	Miscellaneous Equipment	\$74,000
G398	Miscellaneous Equipment	22,000
C398	Miscellaneous Equipment	644,000



Townsend Propane

This regulated, self-contained system provides propane gas to the community of Townsend, Montana, which consists of approximately 407 residential and commercial customers. The system receives propane via over-the-road tanker trucks that unload into site storage tanks. As required, the propane is drawn from the tanks, vaporized and transferred via distribution pipelines to respective customers. System assets are divided into two groupings: storage plant and distribution plants, for a total of six accounts.

Storage plant equipment includes two 30,000-gallon propane tanks, vaporizer, pumps, emergency generator, air compressor, electronic monitoring systems, service electrical piping and other related equipment. Distribution plant includes installed plastic pipe mains and customer connections including tap, service plastic piping, meter, regulator and other service equipment. The Townsend system was built in 1992/93 and reported by management to be in good condition.

The CRN was based upon indexed historical cost, concluding at a total of \$1,500,000, and concluding on a fair value of \$578,000 after all depreciation adjustments, which was then allocated as follows:

P363	Propane Plant Equipment	\$164,000
P376	Mains/Plastic Pipe	237,000
P380	Services/Plastic Pipe	148,000
P381	Meters	4,000
P382	Meter Installation	3,000
P387	Other Equipment	22,000

Non-Regulated Assets

Future Use Land

Please refer to the Real Property Section of this report for a discussion of this property. We have concluded on a **fair value of \$8,984** for these assets.

Other Non-Utility Land Parcels

Please refer to the Real Property Section of this report for a discussion of this property. We have concluded on a **fair value of \$2,930,874** for these assets.

Non-Utility Propane Distribution



These assets consist of two non-regulated propane vapor systems identified as Anaconda and Big Sky. These systems are self-contained and serve the two small communities. The systems receive propane via over-the-road tanker trucks that unload into site storage tanks. As required, the propane is drawn from the tanks, vaporized and transferred via distribution pipelines to respective customers. Assets at each site are basically divided into two groups: storage plant and distribution plant.

The Anaconda propane vapor system services a single customer. Equipment includes a 10,000-gallon propane tank, 2 vaporizers, related equipment and one customer connection. This system was installed in 1997 and reported by management to be in very good condition.

The system includes the following accounts: Main Plastic Pipe, Service Plastic Pipe, Meters, Meter Installation, and Other Equipment. CRN was based upon indexed historical cost, concluding at \$131,000. When then applied a 25% physical depreciation adjustment, concluding on a fair value of \$98,000 for these assets, allocated as follows (based upon original booked cost):

NP376	Main Plastic Pipe	\$7,000
NP380	Service Plastic Pipe	6,000
NP381	Meter	3,000
NP382	Meter Installation	1,000
NP387	Other Equipment	81,000

The Big Sky propane vapor system services a community of approximately 122 residential, and seven commercial customers. Storage plant equipment includes one 30,000-gallon propane tank, 2 vaporizers, pumps, emergency generator, air compressor, electronic monitoring system, service electrical, piping and other related equipment. Distribution plant includes installed plastic pipe mains and customer connections including tap, service plastic pipe, meter, regulator and other service equipment. The Big Sky system was built in 1996/97 and reported by management to be in good condition. Work in progress includes the replacing of the existing storage tank with two underground storage tanks.

The system includes the following accounts: Propane Plant Equipment, Main Plastic Pipe, Service Plastic Pipe, Meters, Meter Installation, Other Equipment and Communication Equipment. CRN was based upon indexed original cost, concluding at \$416,000. When then applied a 25% physical depreciation adjustment, concluding on a fair value of \$322,000 for these assets, allocated as follows (based upon original booked cost):

NP376	Propane Plant Equipment	\$197,000
NP376	Main Plastic Pipe	74,000
NP380	Service Plastic Pipe	24,000



NP381	Meters	4,000
NP382	Meter Installation	1,000
NP387	Other Equipment	1,000
NP397	Communication Equipment	21,000

Colstrip No. 4 Generation and Transmission

In the mid-1980's two coal-fired electric generating units, identified as Colstrip No. 3 and Colstrip No. 4 were constructed along with electrical transmission lines and related facilities, and the Montana Power Company was co-owner of these assets. Upon completion of these facilities, the MPSC determined that the Colstrip No. 4 assets, including the coal generating plant and a portion of the shared transmission lines along with other related assets, could not be included in the calculated rate base that would ultimately be charged to Montana ratepayers. Because of this ruling, an allocation of costs was created and assigned to Montana Power as jurisdictional and non-jurisdictional assets. Colstrip No. 4 assets were considered to be non-jurisdictional for MPSC regulatory purposes.

Colstrip No. 4 assets can be summarized by the following categories: intangible, steam production, transmission and general. The transmission and general assets are made up of many accounts with the same assets or portion of shared assets allocated between the electrical and Colstrip No. 4 entities. The allocation of fair value relating to these shared accounts was based upon original book cost as of 12/31/01, which was supplied to us by the Company.

EC303.1 - Intangible Assets – This asset category includes computer software programs with an estimated useful life of either five or ten years, and are utilized as part of the electric generation process. We have determined the book value of these assets to be representative of fair value, and have therefore concluded on a **fair value of \$55,835** for these assets.



EC310-EC316 – Production Assets

We were informed that Colstrip No. 4 is operating under a “power purchase agreement” for the remainder of the lease term (through 2010), in which its entire electrical output is being purchased by a third party based upon a contractually established price. Company Management provided us a with annual cash flow projection for this time period, in which it was determined that the annual free cash flow would be negative, based upon the revenues expected per the terms of the agreement, and the expected total expenses for operating the facility.

Based upon our analysis, we have concluded on a **fair value of (\$13,030,000)** for these assets.

Transmission Assets

This category includes the following accounts: Land, Land Rights, Structures, Substation Equipment, Towers, Poles and Clearing Land, Conductors, Switching Equipment, and Roads and Trails. Since these assets represent only a portion of the NE's electric transmission system, the system was valued as a whole and a proportionate dollar amount was allocated to the Colstrip No. 4 Transmission accounts.

EC352 - Structures – This asset category includes the Colstrip No. 4 portion of the civil construction located at the 55 transmission substation sites. For details concerning the description and valuation of these assets, please refer to the Montana Power Electric Utility section, account E352. We have therefore concluded on a **fair value of \$197,000** for these assets.

EC353 – Substation Equipment – This asset category includes the Colstrip No. 4 portion of the 55 substations, having a total capacity of 8055 MVA and including the SOCC. This account also includes substation equipment and switching equipment. For details concerning the description and valuation of these assets, please refer to the Montana Power Electric Utility section, account E353. We have therefore concluded on a **fair value of \$4,301,000** for these assets.

EC354.1- Towers, Poles, and Clearing Land – This asset category includes the Colstrip No. 4 portion of the towers, poles and clearing land, having a total length of 495.13 miles. For details concerning the description and valuation of these assets, please refer to the Montana Power Electric Utility section, account E354. We have therefore concluded on a **fair value of \$3,819,000** for these assets.

EC356 – Conductor – This asset category includes the Colstrip No. 4 portion of the conductor, having a total tower and pole length of 495.13 miles. For details concerning the description and valuation of these assets, please refer to the Montana Power Electric



Utility section, account E356. We have therefore concluded on a **fair value** of \$2,652,000 for these assets.

General Assets

This category includes the following accounts: Land-Communication, Structures-Communications, Microwave Equipment, Other Communication and Office Communication. All accounts are directly related to transmitting and receiving of information, voice or data. Since these assets represent only a portion of the NE's data transmission assets, the assets were valued as a whole and a proportionate dollar amount was allocated to the Colstrip No. 4 General Assets.

EC390.6 – Structures-Communication – This asset category includes the Colstrip No. 4 portion of the communication structures relating to the 500kVa microwave system. For details concerning the description and valuation of these assets, please refer to the Montana Power Electric Utility section, account E397.1. We have therefore concluded on a **fair value** of \$13,000 for these assets.

EC397.1 – Microwave Equipment – This asset category includes the Colstrip No. 4 portion of the microwave equipment relating to the 500kVa microwave system. For details concerning the description and valuation of these assets, please refer to the Montana Power Electric Utility section, account E397.1. We have therefore concluded on a **fair value** of \$88,000 for these assets.

EC397.2 – Other Communication – This asset category includes the Colstrip No. 4 portion of communication other equipment relating to the Centracom system, a dispatching console system which facilitates state-wide dispatching for the electrical field personnel. For details concerning the description and valuation of these assets, please refer to the Montana Power Electric Utility section, account E397.2. We have therefore concluded on a **fair value** of \$62,000 for these assets.

EC397.3 – Office Communication – This asset category includes the Colstrip No. 4 portion of the office communication equipment pertaining to Ericsson telephone system. For details concerning the description and valuation of this asset, please refer to the Common Utility section, account C397.3. We have therefore concluded on a **fair value** of \$5,000 for this asset.

Canadian - Montana Pipeline Corporation

The Canadian - Montana Pipe Line Corporation is a wholly owned subsidiary established to handle the cross border importation of Canadian natural gas. The pipeline commences at the Nova Pipeline, and terminates at the U.S. Canadian border where it connects with the NE's gas transmission pipeline. This entity includes three accounts: Right-of-Way, Mains/Steel Pipe, and Microwave and Other Communication Equipment



Mains/Steel Pipe – This asset category includes 3.93 miles of 16" diameter cathodically protected steel pipe. Assets include the controls at point of ownership (after Nova pipeline tap), and the pipeline to the U.S. border. Our depreciation adjustment was based upon the pipeline being forty years old, but in good condition, with the controls exhibiting physical depreciation past mid-life. We have therefore concluded on a **fair value of \$314,000** for these assets.

Microwave and Other Communication Equipment – These assets are utilized to receive and transmit data from the point of ownership in Canada. Assets include towers, transmitter radio, controls and related items. Our depreciation adjustment was based upon the assets being 25 years old and in poor condition. We have therefore concluded on a **fair value of \$12,000** for these assets.

One Call Locators, Ltd.

This company is a wholly owned subsidiary of NE. As previously discussed, the business is based upon short-term contracts for utility line locating. Based on the typical length of the contracts, and the uncertainty as to whether these contracts will be renewed, it is difficult to accurately predict long-term cash flows for this business.

Based upon this fact, we have completed a direct capitalization model as part of our income approach. This model takes into account historical and present year projected pre-tax cash flows, in an effort to determine a "normalized" expected level of annual cash flow (EBIT - Earnings before Interest and Taxes). This level of cash flow is then capitalized at a pre-tax capitalization rate to determine the value of the business enterprise.

In our discussions with NorthWestern Management, it was indicated that it is their immediate intent to sell this business in the open market. To date, the Company has received written "arms-length" offers for this business in the range of \$10,000,000 to \$12,000,000. Based upon these facts and our analysis, we have concluded on a **fair value of \$10,863,953** for this business.



Conclusion of Fair Value

Based upon our analysis and methodologies utilized and presented in this report, we have determined the fair value of certain underlying assets of NE as of the Valuation Date and have summarized this value as follows:

\$1,500,000,000
One Billion Five Hundred Million Dollars

Category	Fair Value – Rounded
Montana Electric –ROW	36,184,000
Montana Electric – Real Property	5,213,000
Montana Electric –Operating Property	844,351,000
Colstrip Units #1-3, Transmission	65,000,000
<i>Subtotal - Montana Electric</i>	<i>950,748,000</i>
<i>Yellowstone Park –Electric</i>	<i>10,624,000</i>
Cushion Gas	33,394,000
Working Gas	6,954,000
<i>Subtotal – Storage Gas</i>	<i>40,348,000</i>
MPC Gas – Operating Property	416,979,000
Montana Gas ROW	7,920,000
Montana Gas Real Property	3,475,000
<i>Subtotal – MPC Gas</i>	<i>428,374,000</i>
Common Plant – Personal Property & Software	16,057,000
Common Plant – Real Property	14,535,000
<i>Subtotal – Common Utility</i>	<i>30,592,000</i>
<i>Townsend Propane</i>	<i>578,000</i>
Totals - Regulated Utilities	1,461,264,000
Future Use Land	9,000
Non-Utility Other Property	2,931,000
Non-Utility Propane	420,000
Colstrip No. 4 – G&T	(1,837,000)
Canadian - Montana Pipe Line Corporation	326,000
One Call Locators, Ltd.	10,864,000
Totals – Non-Regulated/Other Property	12,713,000
Combined Subtotal	1,473,977,000
Grand Total – Rounded	\$1,500,000,000